

RatingsDirect®

Summary:

Los Angeles County, California; Note

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Credit Profile

US\$900.0 mil 2015-16 TRANs due 06/30/2016

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to each of Los Angeles County, Calif.'s 2015-2016 \$900 million tax revenue anticipation notes (TRANs).

The ratings reflect what we view as the county's:

- Very diverse economy and good long-term creditworthiness;
- Strong coverage at maturity, and access to very strong alternate liquidity; and
- Recent history of conservative cash flow projections that exceed projections.

According to the resolution and financing certificate, on and after the set-aside dates, the county auditor-controller will deposit into the TRANs repayment fund unrestricted taxes, income, revenue, cash receipts, and other monies of the county attributable to fiscal 2016, and lawfully available for payment. The repayment fund will be held by the county treasurer.

The 2015-2016 TRANs are secured by \$900 million (plus interest to accrue on all series) of the first unrestricted revenues of the county attributable to fiscal 2016 to be received on and after Dec. 20, 2015; Jan. 1, 2016; and April 1, 2016. The series mature June 30, 2016.

Coverage for the fiscal 2016 TRANs at maturity is anticipated to be a strong 1.3x with assumed estimated interest costs. The county's cash flows indicate payments set aside in December, January, and April. Set-aside coverage is good, above 1x for all periods. The county benefits from alternate cash sources ranging property tax and other trust funds to liquidity available from the hospital group funds. These sources bring set-aside coverage above 15x. Coverage at maturity with alternative liquidity would rise to almost 3x.

Los Angeles County has access to other significant internal cash sources, including unapportioned property taxes, as well as a variety of other available county funds held outside the general fund, and county officials report transfers of these funds do not require board action.

Los Angeles County's cash flow assumes a growth in secured property tax revenue of 5.9% which is aligned with the assessor's estimates. The county assumes 5% growth in sales tax revenue, resulting in revenue levels anticipated to be slightly higher than the fiscal 2015 year forecast. Additionally, the county estimated an increase of \$138 million in 1991 realignment revenues, based on the state's proposed reduction in realignment funding shift from counties under AB85. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates.

The general fund subsidy to the hospitals is budgeted to increase by about \$71 million this year as the county continues to adjust to the health care requirements. Overall, cash flows show a slight surplus and the general fund has maintained strong budgetary flexibility. Though we believe there may be some fluctuation in the individual revenue and expenditure line-item results, historically, overall cash flow assumptions have had positive variations, resulting in stronger-than-projected coverage.

For the previous year, the fiscal 2015 TRANs coverage at maturity is expected to be 1.8x with actual cash through April. This is higher than the original 1.5x projection at maturity. The county had projected negative cash for several months in fiscal year 2015; however, actual cash flows were much stronger and set-aside coverages were all above 1.5x. The county benefited from increases in property tax revenue and welfare advances, which were higher than originally projected. On the expenditure side, the reduction in the hospital loan was slightly lower than anticipated. Overall, the county's projected year-end cash balance is expected to be over \$350 million higher than original projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 31, 2015, the pool is highly liquid, with an average weighted maturity of 557 days and 41.3% of the pool's investments mature within 60 days.

Related Criteria And Research

Related Criteria

- USPF Criteria: Short-Term Debt, June 15, 2007

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